Nova Scotia Municipal Finance Corporation

12th Annual Report
1992

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How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989.

Purpose

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards, and hospitals by issuing its securities and relending the funds to these entities.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province, or other municipalities within the province.

Administration

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty per cent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by the Corporation and/or the borrowing units.

Support staff and resources of the provincial Departments of Attorney General, Finance, and Municipal Affairs have been provided to the Corporation.

Office location:

1701 Hollis Street, Suite 302, Halifax, Nova Scotia

Mailing address:

PO Box 850, Station M, Halifax, Nova Scotia B3J 2V8

Telephone: (902) 424-4590 *Fax:* (902) 424-0525

Directors and Officers

Directors of the Corporation

Edgar G. Cramm, M.P.A.
Chairman
Director, Finance and Advisory Services
Department of Municipal Affairs

Richard S. Brookfield, F.C.A.
Consultant, Halifax, Nova Scotia

Douglas McC. Carter
Mayor of Truro, Nova Scotia

R. Wendell Phinney
President, Phinney Holdings Limited
Kentville, Nova Scotia

Harold A. Renouf, O.C., F.C.A., LL.D.
Business Consultant, Halifax, Nova Scotia

Officers of the Corporation

Chairman
Edgar G. Cramm, M.P.A.
Director, Finance and Advisory Services
Department of Municipal Affairs

Chief Executive Officer and Treasurer
Shirley L. Carras, C.A.

Secretary
R. Mark Gilbert, M.B.A.
Municipal Advisor, Department of Municipal Affairs

General Counsel
James G. Spurr, M.B.A., LL.B.
Financial Counsel, Department of Attorney General

Assistant Treasurer
Richard W. McAloney, C.A., C.I.A.
Manager of Financial Reporting and Analysis
Investment Division, Department of Finance

Director's Report

Market Conditions

The year 1991 saw Canada continue to experience one of the most serious recessions in recent times. The decline in rates which started in 1990 continued in 1991 such that the ten-year Government of Canada bond declined almost 4 full percentage points (400 basis points) from its highs in 1990 to its lows in 1991.

The Canadian domestic debt markets were being sent mixed signals in early 1992. Although there were several false starts during 1991, which in themselves indicated that economic recovery was underway, it was really not until early 1992 that more concrete signs were in evidence. However, nervousness on the part of investors, significant supply pressures due to the increase in total government borrowings in 1991–92, and serious concerns over total government deficits, the constitutional accord and the plight of the economy in general combined to put upward pressure on spreads. Ten-year bond rates again climbed, although modestly.

This fiscal period also saw the return of a positively sloping yield curve, although still reasonably flat in the five to ten year area.

Loans to Municipal Units, School Boards and Hospitals

During the year, long-term loans were made to 21 municipal units, 15 school boards, and 1 hospital, totalling $81,848,756, which were used for the following purposes:

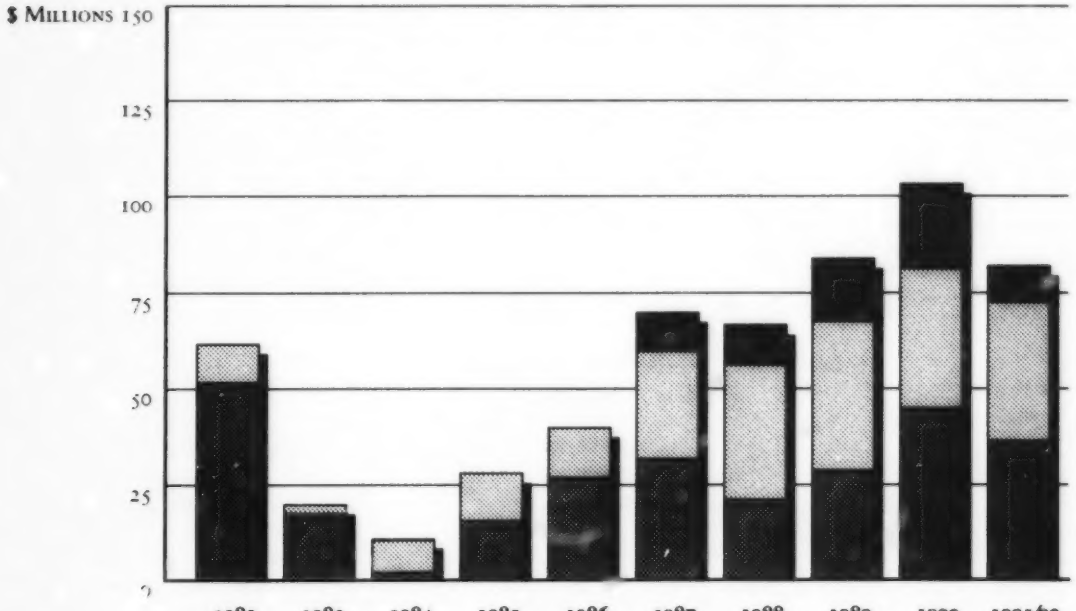
	Projects Administered by Departments of		
	Municipal Affairs	Education	Health & Fitness
Schools	$	$ 36,080,553	$
Hospitals			9,320,390
Water	6,554,600		
Sewer	2,637,200		
Streets	6,699,200		
Buildings	10,047,013		
Land	1,883,100		
Electric	600,000		
Equipment	860,900		
Recreation	775,800		
Solid waste	2,600,000		
Sewage treatment	3,790,000		
	$ 36,447,813	$ 36,080,553	$ 9,320,390
Number of Loans	24	22	1

One interim loan in the amount of $160,000 was made during the year to a borrowing unit. This loan was repaid from the proceeds of a long-term loan made to this unit.

In each of the last 10 years, long-term loans were made as depicted in the following chart:

Long-Term Loans Made During Year

1982 to 1990 inclusive represent calendar years; 1991-92 represents the 15 month period January 1, 1991 to March 31, 1992



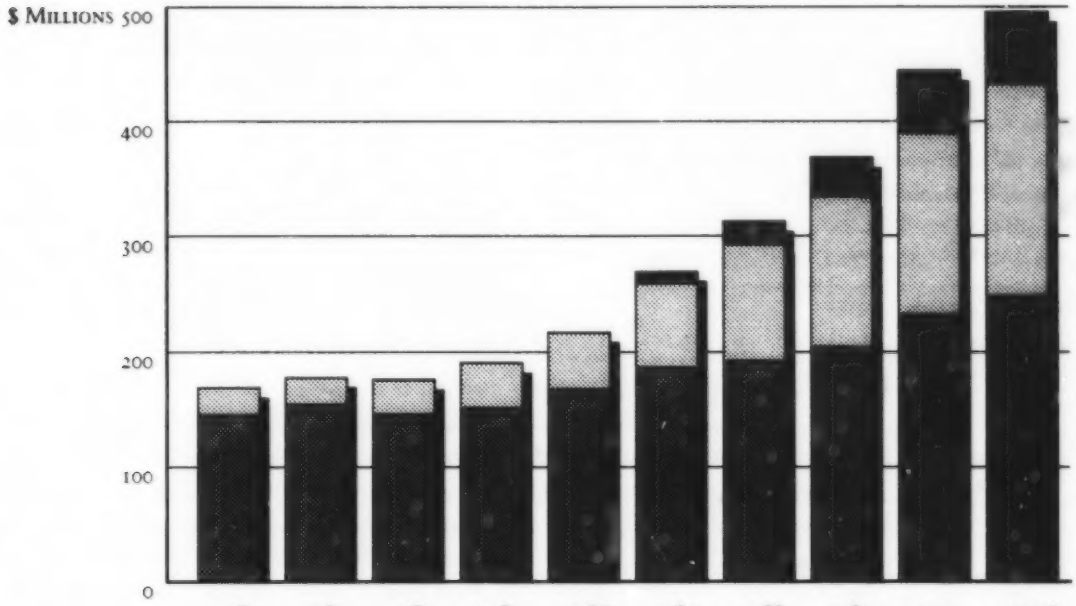
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991/92
Municipal	51.7	17.6	2.1	15.8	26.9	31.7	21.2	28.8	45.1	36.4
School Boards	10.0	2.2	8.3	12.2	13.0	28.1	35.1	38.7	36.1	36.1
Hospitals	—	—	.4	—	—	10.1	10.3	16.2	22.0	9.3
Total	**61.7**	**19.8**	**10.8**	**28.0**	**39.9**	**69.9**	**66.6**	**83.7**	**103.2**	**81.8**

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans outstanding at March 31, 1992, amounted to $495.2 million, comprising $249.2 million to 71 municipal units, $183.5 million to 20 school boards, and $62.5 million to 17 hospitals. The following chart shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category:

Loans to Municipal Units, School Boards and Hospitals

* as at December 31 except for 1992 which is at March 31.



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1992*
Municipal	146.4	155.2	147.0	152.3	168.3	187.1	192.6	204.5	232.6	249.2
School Boards	22.9	22.9	29.0	38.2	48.2	72.0	100.0	129.5	156.6	183.5
Hospitals	—	—	.4	.4	.4	10.4	19.7	34.3	54.7	62.5
Total	**169.3**	**178.1**	**176.4**	**190.9**	**216.9**	**269.5**	**312.3**	**368.3**	**443.9**	**495.2**

Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

Borrowing Program

Funds for the loans to municipal units, school boards, and hospitals were raised through two issues in the Canadian domestic market totalling $81,800,000. For the first time since 1988, these public issues were able to access the one- to ten-year serial market. The first issue, in May, was for $34.7 million and the second, in October, was for $47.1 million. Interest rate coupons ranged from 8¼ per cent to 10½ per cent.

Trust Funds Under Administration

The Corporation administers sinking funds on behalf of borrowing units. These sinking funds, which relate to 170 loans to units totalling $255.2 million, are to be applied to the repayment of these loans at maturity and will in turn provide the Corporation with the funds to repay the corresponding debenture issues on their respective maturity dates.

Following is a summary of the continuity of the balance of the sinking funds for the year:

Balance of Sinking Funds – January 1, 1991	$	33,005,168
Installments received		15,709,984
Income earned		5,763,381
Balance of Sinking Funds – March 31, 1992	$	54,478,533

Change in Year-End

The Corporation changed its fiscal year-end from December 31st to March 31st in accordance with the Municipal Fiscal Year Act, Chapter 19 of the Statutes of Nova Scotia 1990.

This resulted in a 15-month fiscal reporting period from January 1, 1991, to March 31, 1992.

Cost of Administration

The 1991–92 administrative expenses of the Corporation totalled $309,048. These costs covered a 15-month period due to the change in the Corporation's year end from December 31st to March 31st. The Province of Nova Scotia cost-shared in these expenses to the extent of $261,583, or 85 per cent, with the balance having been provided by the Corporation. The total administrative expenses were $50,552 under budget.

Executive Changes

At the end of October, 1991, Richard S. Brookfield retired as Chairman and Chief Executive Officer. Since his appointment in 1986, the Corporation has benefited greatly from his knowledge and expertise. We express our gratitude for his valued leadership. He continues to serve as a Board Member of the Corporation.

Mr. E.G. Cramm was appointed as Chairman of the Corporation and Mrs. Shirley Carras was appointed Chief Executive Officer. Mr. Cramm has been associated with the Corporation since its inception, first as Corporate Secretary, and since 1986, as a Director. Mrs. Carras has been involved with the Corporation since 1983, and also holds the position of Treasurer.

Acknowledgements

At this time we wish to express our appreciation for the financial assistance provided by the provincial government. We expecially acknowledge the continued support and co-operation received from the Departments of Attorney General, Education, Finance, Health and Fitness, and Municipal Affairs. Each of these departments has contributed the services of staff, which provided considerable assistance to the Corporation. The Directors wish to thank the staff of the Corporation for their excellent contribution.

E.G. Cramm
Chairman

Management's Responsibility for Financial Statements

The financial statements of Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, Peat Marwick Thorne, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The financial statements and all information in the Annual Report have been approved by the Board of Directors. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Chairman

Chief Executive Officer and Treasurer

Auditors' Report

To the Chairman and Members of the Board of Directors of the Nova Scotia Municipal Finance Corporation

We have audited the statement of financial position of the Nova Scotia Municipal Finance Corporation as at March 31, 1992 and the statements of revenue, expenditure and reserve fund and changes in financial position for the 15 month period then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 1992 and the results of its operations and the changes in its financial position for the 15 month period then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Halifax, Canada

May 7, 1992

Statement of Financial Position

March 31, 1992, with comparative figures for December 31, 1990

Assets

	March 31 1992	December 31 1990
CURRENT ASSETS:		
Cash	$ 33,316	$ 17,461
Short-term investments, at cost which approximates market value	5,125,000	4,870,000
Accrued interest receivable	18,751,696	7,724,254
Principal due within one year on loans to units	43,472,108	27,141,304
	67,382,120	39,753,019
LONG-TERM ASSETS:		
Loans to units (note 2)	495,198,631	443,907,195
Less principal included in current assets	43,472,108	27,141,304
	451,726,523	416,765,891
DEFERRED CHARGES:		
Discount on debenture debt	1,584,687	1,340,760
Less accumulated amortization	1,174,808	1,071,997
	409,879	268,763
	$ 519,518,522	$ 456,787,673
TRUST FUND ASSETS (note 3)	$ 54,478,533	$ 33,005,168

Liabilities and Equity

	March 31 1992	December 31 1990
CURRENT LIABILITIES:		
Accounts payable	$ 21,596	$ 70,008
Accrued interest payable	18,843,503	8,163,851
Principal due within one year on debenture debt	44,097,000	27,023,000
	62,962,099	35,256,859
LONG-TERM DEBT:		
Debenture debt (note 4)	495,285,000	443,858,000
Less principal included in current liabilities	44,097,000	27,023,000
	451,188,000	416,835,000
DEFERRED CREDITS:		
Discount on loans to units	1,638,251	1,393,421
Less accumulated amortization	1,202,576	1,089,427
	435,675	303,994
EQUITY:		
Reserve Fund	4,932,748	4,391,820
	$ 519,518,522	$ 456,787,673
TRUST FUNDS UNDER ADMINISTRATION (note 3)	$ 54,478,533	$ 33,005,168

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

Director *Director*

Statement of Revenue, Expenditure and Reserve Fund

15 Month period ended March 31, 1992, with comparative figures for the year ended December 31, 1990

	March 31 1992	December 31 1990
REVENUE:		
Interest on loans to units	$ 67,027,723	$ 44,732,171
Amortization of discount on loans to units	113,149	83,604
Interest on short-term investments	523,132	558,274
Current discount on loans to units	659,115	897,528
Grant, Province of Nova Scotia for administrative expenses	261,583	253,765
	68,584,702	46,525,342
EXPENDITURE:		
Interest on debenture debt and short-term loans	67,093,681	44,786,606
Amortization of discount on debenture debt	102,811	80,916
Debenture issue expenses	538,234	817,607
Administrative expenses (note 5)	309,048	253,765
	68,043,774	45,938,894
NET REVENUE, BEING AN INCREASE IN RESERVE FUND	540,928	586,448
Reserve fund, beginning of period	4,391,820	3,805,372
RESERVE FUND, END OF PERIOD	$ 4,932,748	$ 4,391,820

See accompanying notes to financial statements.

Statement of Changes in Financial Position

15 Month period ended March 31, 1992, with comparative figures for the year ended December 31, 1990

	March 31 1992	December 31 1990
CASH DERIVED FROM:		
Net revenue	$ 540,928	$ 586,448
Add (deduct) items not involving cash:		
Amortization of discount on loans to units	(113,149)	(83,604)
Amortization of discount on debenture debt	102,811	80,916
	530,590	583,760
Issue of debentures of $81,800,000 net of discount of $243,927 (1990—$103,000,000 issued at par)	81,556,073	103,000,000
Principal received on loans to units	30,557,320	27,592,789
Change in non-cash working capital	(396,202)	198,557
	112,247,781	131,375,106
CASH APPLIED TO:		
Loans of $81,848,756 to units on security of debentures, net discounts of $244,830 (1990—$103,164,450 net discounts of $56,139)	81,603,926	103,108,311
Principal payments on debenture debt	30,373,000	27,430,000
	111,976,926	130,538,311
INCREASE IN CASH	270,855	836,795
Cash position, beginning of period	4,887,461	4,050,666
CASH POSITION, END OF PERIOD	$ 5,158,316	$ 4,887,461

Cash is defined as cash plus short-term investments.

See accompanying notes to financial statements.

Notes to Financial Statements

15 Month period ended March 31, 1992

Created by the Municipal Finance Corporation Act, which was proclaimed on July 31, 1979, the corporation began operations on January 1, 1980 and its fiscal year-end is March 31. The object of the corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

1. Significant accounting policies:

(A) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(B) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to provide a capital base for the corporation as well as to provide for funds which may be required for administrative purposes and timing differences.

2. Loans to units:

(A) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Due to existing provisions for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

(B) Principal payments receivable in each of the next five years are as follows:

1993	$ 43,472,108
1994	31,714,991
1995	30,355,896
1996	32,793,325
1997	69,103,208

3. Trust funds under administration:

Trust fund assets totalling $54,478,533 (1990 – $33,005,168) are held on behalf of certain municipal units, district school boards and hospitals, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

4. Debenture debt:

(A) The debenture debt outstanding at March 31, 1992 totalling $495,285,000 (1990 – $443,858,000) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
A	Jan. 4/80	1993 TO 2000	11.250	$ 10,000,000
B	July 2/80	1992 TO 2000	12.000	6,300,000
C	Dec. 19/80	1992 TO 2000	13.375	11,250,000
D	Dec. 19/80	1992 TO 2000	13.375	4,500,000
F	Dec. 22/81	1996	15.000	35,000,000
G	Jan. 28/82	1993 TO 1994	15.750	4,000,000
H	July 12/82	1992	15.500	10,000,000
J	Nov. 23/82	1992	13.000	2,120,000
K	Sept. 7/83	1992 TO 1998	12.250–12.750	6,000,000
L	Nov. 9/83	1992 TO 1993	12.000	420,000
M	Aug.28/84	1992 TO 1999	14.000–14.250	3,500,000
N	Apr. 2/85	1992 TO 2005	11.750–12.500	8,915,000
P	Dec. 11/85	1992 TO 2000	10.250–11.000	6,100,000
Q	July 22/86	1992 TO 1996	9.750–10.000	15,146,000
R	Nov. 5/86	1992 TO 1996	9.750–10.000	7,825,000
S	May 14/87	1992 TO 1997	8.000–8.750	21,502,000
T	Dec. 15/87	1992 TO 1997	10.250–10.750	21,125,000
U	May 11/88	1992 TO 1998	9.500–10.375	13,452,000
V	Nov. 3/88	1992 TO 1998	10.500–11.000	40,230,000
W	Apr. 26/89	1999	11.250	40,100,000
X	Nov. 16/89	1999	10.500	43,000,000
Y	June 21/90	2000	11.750	44,000,000
Z	Nov. 15/90	2000	11.900	59,000,000
AA	May 29/91	1992 TO 2001	9.375–10.500	34,700,000
AB	Oct. 30/91	1992 TO 2001	8.250–9.750	47,100,000
				$ 495,285,000

Interest is payable semi-annually.

(B) Principal payments due in each of the next five years are as follows:

1993	$ 44,097,000
1994	31,548,000
1995	28,611,000
1997	27,712,000
1997	69,015,000

5. Administrative expenses:

	1992 Budget	1992 Actual	1990 Actual
Salaries and benefits	$ 272,900	$ 255,559	$ 198,950
Travel	8,900	3,641	4,310
Equipment and maintenance	5,500	5,950	10,351
Printing	2,200	2,626	1,688
Postage	6,420	4,432	3,124
Telephone	6,700	6,146	4,519
Stationery and supplies	4,000	3,592	2,010
Professional services	24,100	6,900	8,438
Bank charges	9,050	7,441	7,614
Directors' fees and expenses	6,700	5,725	2,860
Professional development	4,700	1,031	3,080
Dues and subscriptions	4,000	2,981	2,559
Insurance	2,200	1,675	1,315
Other	2,230	1,349	2,947
	$ 359,600	$ 309,048	$ 253,765

6. Taxes:

The corporation is not subject to Provincial or Federal Income Taxes, or Federal Goods and Services Tax.

7. Change in year-end:

The Corporation changed its fiscal year-end from December 31 to March 31 in accordance with the Municipal Fiscal Year Act, chapter 19 of the Statutes of Nova Scotia 1990.

This resulted in a 15 month fiscal reporting period from January 1, 1991 to March 31, 1992.